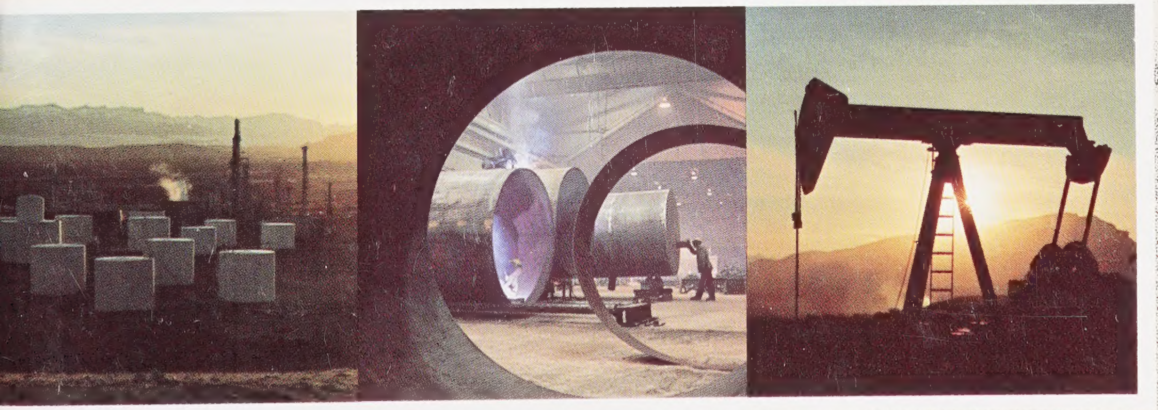
Husky Oil

1974 Annual Report



Year in Brief

ANNUAL MEETING:

The Annual General Meeting of Shareholders of Husky Oil Ltd. will be held in the Palliser Hotel in Calgary, Alberta, on May 1, 1975. Formal notice of this meeting and proxy material are enclosed.

FORM 10-K

Copies of the Company's 1974 annual report on Form 10-K filed with the United States Securities and Exchange Commission, including financial statements and exhibits, will be provided without charge to shareholders who send written requests to the Office of the Secretary of the Company at Husky Oil Ltd., 815 - 6th Street S.W., Calgary, Alberta, Canada T2P 1Y1.

Highlights of Operations

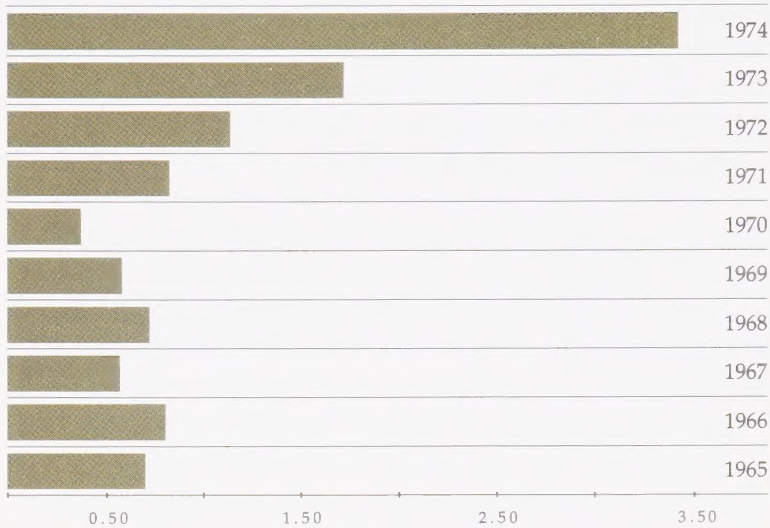
Financial

	thousands of dollars 1974	1973 (Restated)
Sales and operating revenues	**$435,306**	252,598
Working capital provided by operations	**62,368**	49,155
Net earnings	**33,679**	16,970
Net earnings per common share (in dollars)	**3.41**	1.71
Capital expenditures	**61,881**	46,736
Working capital at end of year	**33,972**	36,359
Long term debt at end of year	**102,119**	102,844

Operations

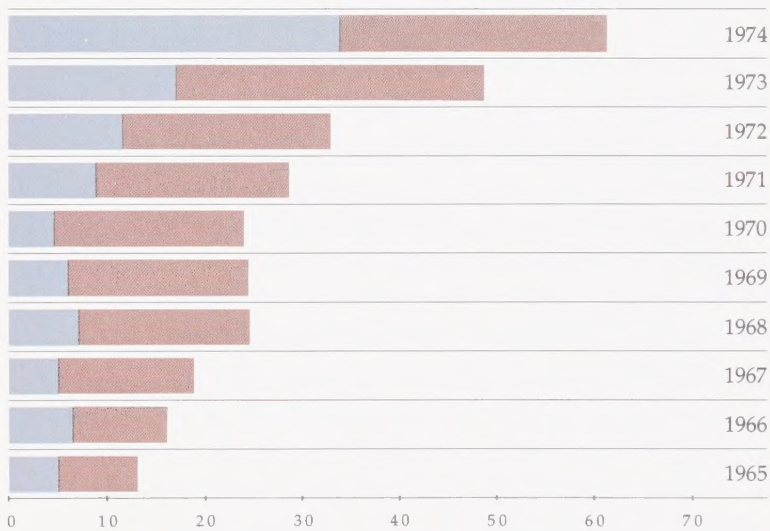
	1974	1973
Net crude oil and gas liquids production (barrels daily)	**43,015**	43,984
Net natural gas production (MCF per day)	**65,460**	73,868
Refinery runs (barrels daily)	**59,116**	50,828
Refined product sales (barrels daily)	**63,958**	58,662
Number of sales outlets	**1,163**	1,270

Net Earnings Per Share In Dollars*

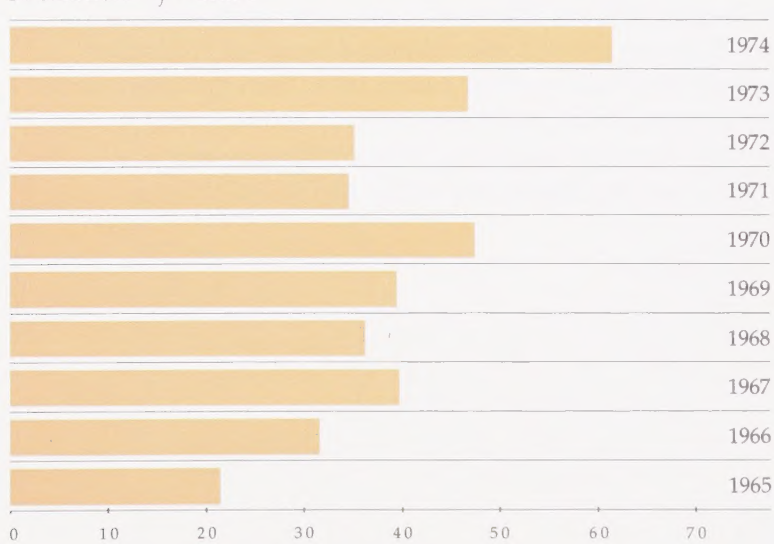


**Earnings from operations including extraordinary items*

Cash Flow From Operations
Net Earnings
In Millions of Dollars



Capital Expenditures
In Millions of Dollars



Letter to Shareholders

Husky concluded another successful year in 1974 and trends we reported to you last year have continued. While North America is suffering simultaneously from recession and inflation and it is clear that 1975 will be a year of uncertainty, it is equally clear that opportunities still exist. Because of its capital base and, more importantly, through the dedication of its employees, Husky is prepared to take advantage of these opportunities.

Husky is proud of its employees — its greatest asset — and their contribution to the company's success. If Husky is to successfully meet the many challenges facing it today, to remain competitive, continuing to grow, and continuing to be able to provide much needed goods and services and a return to our investors, it will be because of these dedicated people.

Most of our corporate results now being reported should be viewed from a changing perspective, with the realization that earnings increases do not reflect equal real-dollar advances.

Husky's 1974 earnings of $33.7 million, or $3.41 per share, reflected a 7.7 per cent return on gross revenues of $435.3 million for the year. This compares to earnings of $17 million, or $1.71 per share, which represented a return of 6.7 per cent on gross revenues of $252.6 million in 1973. Husky's return on average total assets invested was 9.4 per cent in 1974. This compares to 5.6 per cent in 1973.

All departments showed financial improvement in 1974. Approximately two-thirds of the earnings increase came from our United States operations related primarily to crude price increases. Increased crude prices in Canada were largely offset by higher taxes, royalties and surcharges imposed by provincial and federal governments during the year.

Increases in cash flow during the past two years have allowed for expansion of exploration programs and the financing of other growth expenditures. Capital expenditures in 1974 were $61.9 million, compared to $46.7 million for 1973. Substantial capital programs budgeted for 1975 will be periodically reviewed and implemented during the year in response to the uncertain North American economic situation.

In keeping with Husky's continuing exploration and development policy, exploration and heavy oil production operations were expanded during 1974. This expansion marks the 37th year Husky has been involved as a heavy oil producer in major heavy oil producing areas of North America — Saskatchewan, Alberta, Wyoming, and now California.

Lloydminster, Canada, an area extending 100 miles east to west and 65 miles north to south along the Alberta/Saskatchewan border, has been an important heavy oil producing region for the company since 1948. The developments in technology and the experience gained over the years in this area are being applied to the very high potential of the significant energy reserves contained in two other heavy oil locations in Canada and in locations in California.

A stratigraphic testing program, comprising 65 core holes, was completed on our Athabasca Tar Sands acreage during the past two years and evaluation of samples is now in progress. In another program begun this winter, two wells were drilled on our heavy oil holding at Cold Lake — located between Athabasca and Lloydminster. These and other wells to be drilled will be used to test the effects of thermal stimulation processes as well as primary production possibilities on the lease.

The Athabasca Tar Sands energy reserves are sizable by world standards and Canada's long-term future oil production may well consist mainly of the output of synthetic crude plants constructed on the heavy oil sands.

As has been our past practice, the data obtained from research and development and from day-to-day production activity in California will be assessed for possible application to other areas. Large quantities of heavy oil-in-place have been identified in California where recovery difficulties commonly associated with heavy oil fields have impeded development. Husky is presently expanding its land position and drilling activity in the region.

Husky is a fully-integrated petroleum company whose assets are approximately equally divided between Canada and the United States. This truly bi-national character is the basis for Husky's unique capability of shifting capital and development programs within North America in reaction to changes in governmental policies and regulations.

Husky's priorities for future development reaffirm the policy of continued growth as a fully integrated petroleum company. Although our production, refining and marketing volumes are about in balance overall, it is our further goal to bring these into balance within both the United States and Canada. To help achieve this objective the company will continue to emphasize the acquisition of additional crude supply in the United States through intensified exploration, acquisition or merger. For improved balance within Canada, plans are progressing for the relocation of a 50,000 barrel per day refinery in a western province and expanded marketing across the country.

By the end of 1974, a full year of higher petroleum prices had caused a worsening of international economic imbalances. The worldwide impact of this situation has interrupted the world's normal monetary flow, posing difficulties for people everywhere — in oil exporting as well as consuming countries.

The resulting world economic situation is reflected in slowdowns and a lessening of international trade. Inflationary trends increase the costs of resources, manpower and capital. These factors, together with government deficit spending, all combined in 1974 to place North America's economy under the twin burdens of recession and serious inflation.

In the petroleum industry, perhaps more than others, inventory replacement will be technically more difficult and will require larger and larger amounts of capital as inflation continues.

At the time of this report, neither the government of Canada nor that of the United States has defined a clear-cut national energy policy. Such a policy is necessary to enable the industry to commit the funds and people for the high risk projects for development of present and new sources of energy within North America.

Husky believes, given clear and reasonable ground rules, and with reasonable incentives to attract potential investors, the petroleum industry can innovate and implement programs which will increase our energy supplies. Although there has been some small progress made in both countries in recognition of this need, the various levels of government must move faster to firm up the necessary ground rules and retain or restore incentives. As an example, the provincial governments in Alberta and Saskatchewan have made moves to offset the effects of new federal taxation, and in the United States the federal government has stepped up its outer continental shelf leasing programs. *This is a start, but much more must be done.*

1975 will be a year requiring a realistic appraisal of many changing circumstances affecting the petroleum industry. In this context, and recognizing the challenges facing us all, Husky will continue to direct the company's capabilities towards improving the supply of energy to North America.

Glenn E. Nielson

GLENN E. NIELSON, *chairman of the board*

James E. Nielson

JAMES E. NIELSON, *president*

Review of Operations / Exploration

International

Husky's international exploration holdings include a net interest of more than one million acres in a total of five million gross acres located in the Philippines, the North Sea, and the Mediterranean Sea. With the exception of a portion of the company's Philippine interests, all of the international exploration holdings are offshore.

International exploration activity during 1974 included the conclusion of agreements in the Philippines in which three offshore exploratory wells are planned for 1975. In the North Sea three wells are projected for drilling in various United Kingdom blocks in 1975. Our group's contract rig is expected to be on location in early summer. Other wells are planned for shallower areas as another contracted drilling rig becomes available.

Philippines

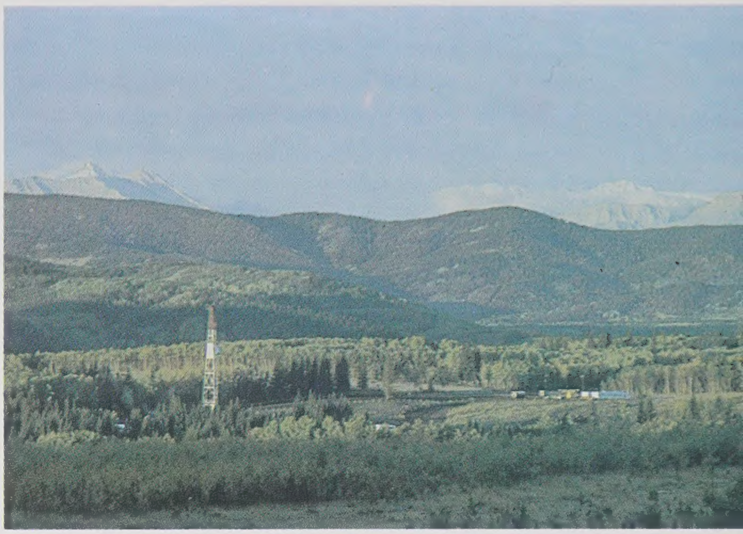
Joint venture exploration agreements were concluded during 1974 involving the drilling of offshore wells in Husky's two separate Philippine contract areas. On our 685,000 acre offshore tract southeast of Palawan Island in the Sulu Sea a farmout agreement provides for the drilling of two exploratory wells the first of which is planned for June 1975. In the agreement Husky will pay fifteen per cent of the well costs and has a forty per cent retained interest in the tract.

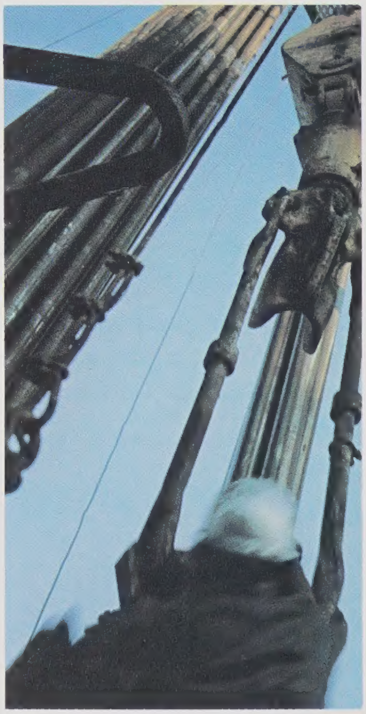
In Husky's other contract area in the Philippines, preparations with partners have begun for the drilling, in mid-1975, of an exploratory well. This area is comprised of several blocks totalling 3,206,000 acres. Husky's share of the well costs will be 8 1/3 per cent of the first two million dollars expended and will increase to 16 2/3 per cent for any additional expense. After the drilling of the first well our interest will be 16 2/3 per cent.

North Sea

A newly constructed semi-submersible drilling rig, contracted for by Husky and its partners, is presently being moved to the North Sea. The Penrod 71 rig is expected to be available for the first test well this summer and is to be used after that on an alternating basis with another company.

A jack-up drilling rig presently under construction in Scotland is expected to be available for drilling in the German sector of the North Sea during the latter part of 1975.





As a general policy in international exploration, Husky particularly emphasizes land acquisition in which expenditures are primarily directed towards maximum exploration exposure, as opposed to cash bonus payments, and we attempt to attract partners to participate in the drilling costs after geologic and seismic work has been completed.

North American Exploration

Husky's land holdings in the United States and Canada exceed 5 million net acres in an overall North American exploration position involving some 15 million gross acres.

In Canada, follow-up exploration drilling proceeded in the Quirk Creek area of the Alberta foothills during 1974 after a natural gas discovery late in 1973. Although it did not reach its objective, the second well of a series of exploratory wells fulfilled Husky's earning commitment on the block. The third and final earning well in this area has been production tested and classified as non-commercial. On a farm-out from a different company, another earning well is now drilling on a separate geologic feature six miles northwest of the discovery well.

Plans are now complete to commence development drilling offsetting the discovery well which had established an absolute open-flow potential of 44 million cubic feet of gas per day.

In the Lloydminster area on the Alberta/Saskatchewan border, the location of major Husky heavy oil holdings, a continuing exploration program resulted in four oil wells and two gas wells during 1974. Emphasis in 1974 was shifted from Saskatchewan to Alberta drilling locations due to more favorable economics. Further evaluation of eight other indicated oil or gas shows is planned for 1975 together with additional exploration in the area.

A 35 well stratigraphic program, begun in the winter of 1973, has been completed on Husky's Athabasca Tar Sands acreage near Ft. McMurray, Alberta. In total, 65 stratigraphic wells have now been drilled on the 50,000 acre block for the purpose of evaluating the tar sand thickness and quality and the depth of the overburden on the lease.

At Cold Lake, a heavy oil region also located in northern Alberta, two evaluation wells were drilled on Husky's 18,000 acre lease. Plans for testing, involving these and additional wells, will include an evaluation of a thermal stimulation process in addition to the possibility of primary production.

In the United States, as a result of a royalty bid at a United States federal offshore land sale late in 1974, Husky acquired block 329 in the Vermillion area offshore Louisiana. This sale marked the first time royalty bids were invited. Certain specified blocks were available on a royalty basis while the large majority of the tracts required traditional cash bonus payments. The lease is for a five year term with extensions available in the event of oil or gas discoveries. Drilling on the block, in participation with another company, is planned for early 1975.

In the Railroad Valley-White River Valley area of Nevada, a two to three year exploration program involving land acquisition, seismic activity and drilling began in the third quarter of 1974. In addition, drilling is proceeding on a 60,000 acre farm-in arrangement in the Paradox Basin area of Utah, an area in which an additional 100,000 acres were acquired during 1974.

Wyoming continues to be an area of special interest. Exploration activity has been expanded in the Big Horn basin with the acquisition of significant additional seismic data. Our land position in the Wind River basin has been expanded and drilling has been scheduled to earn an interest in an 80,000 acre unit in the Washakie basin.

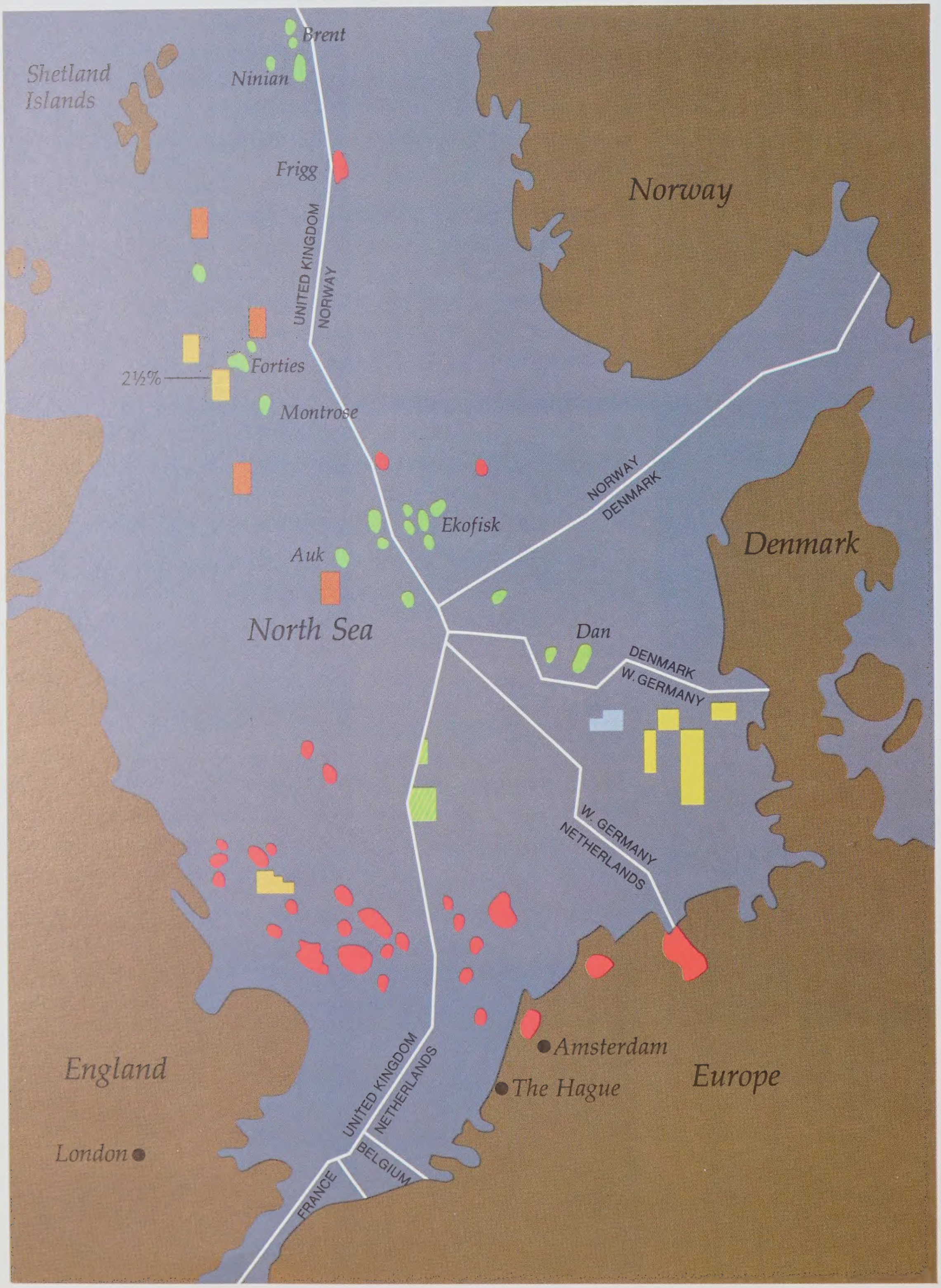
Also in Wyoming, a 19,000 foot farmout test at no cost to Husky began in October in the Green River Basin area where Husky has a 37.5 per cent retained interest to 11,000 feet and fifty per cent in the deeper formations. Extensive seismic work has been completed on the balance of Husky's holdings.

Extensive evaluation of Husky interests was provided by 48 wells drilled during the year by others under farmouts and other arrangements. Including the Lloydminster program, Husky participated in a total of 57 gross exploratory wells (42 net). The results of the program were six oil wells and five gas wells in Canada and three oil wells and three gas wells in the United States.

The company is currently divesting itself of hard rock mineral holdings with royalty interests being retained in the more attractive prospects.

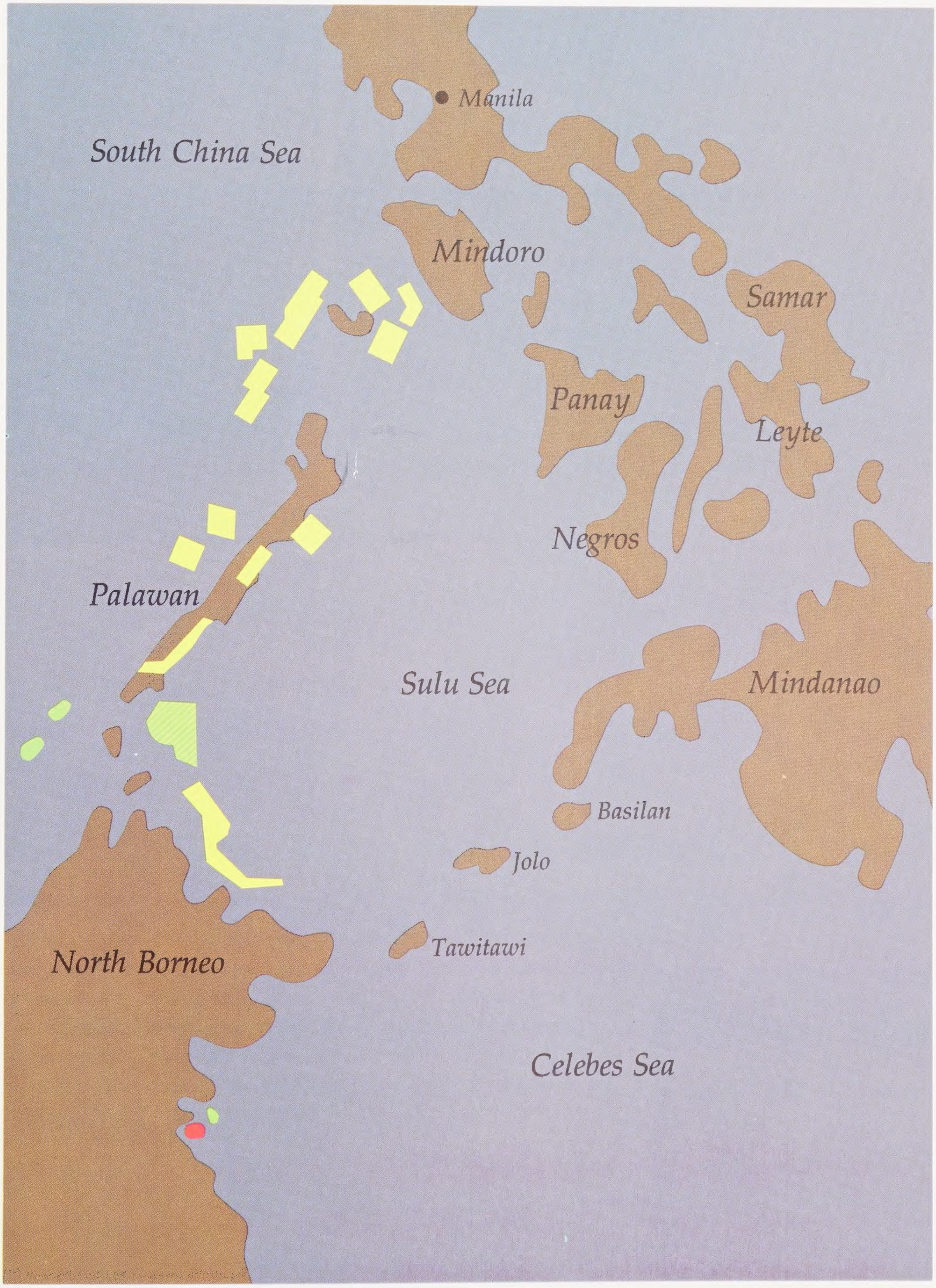
North Sea Acreage Interest

- United Kingdom Sector 10%
- United Kingdom Sector 5%
- West German Sector 12.5%
- West German Sector 15%
- Netherlands Sector 15%
- Oil Fields
- Gas Fields



Philippines Acreage Interest

- 3,206,135 acres
- 685,305 acres
- Oil Fields
- Gas Fields



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Production

Net crude oil and natural gas production for 1974 was 43,000 barrels of oil and 65 million cubic feet of natural gas per day, compared to 44,000 barrels per day and 74 million cubic feet per day in 1973. Overall gross production of oil remained unchanged. A decline in the net production of oil in Canada of approximately 2,300 barrels per day was partially offset by an increase of 1,300 barrels per day in the United States.

Almost two-thirds of the total decline in Canadian production was due primarily to increased royalties and reduced exports of oil to the United States as Husky's production from its more prolific high gravity Alberta fields was restricted by proration limitations. In Lloydminster a long wet spring and limited availability of service rigs were primary causes of a 900 barrel per day decline. These two factors combined to cause an unusually high number of wells to be down throughout the year awaiting servicing. Reduction in drilling activity, in an atmosphere of uncertainty regarding governmental regulations and taxation plans, also significantly contributed to the decline in Lloydminster.

Husky's 1974 production activity included the drilling of a total of 124 gross development wells, 84 in Canada and 40 in the United States. Of these, 66 were drilled in Lloydminster — approximately half of a normal year's program for the area.

Because of an especially strong land position in the area, Husky has continued to prove up additional development drilling locations in Lloydminster. Husky presently has available a large backlog of potentially productive locations for future drilling.

Proved reserves at the 1974 year-end amounted to 115.5 million barrels of crude oil and 270.5 billion cubic feet of natural gas. Probable reserves were 29.5 million barrels of crude oil and 44.5 billion cubic feet of natural gas for a combined total of 145 million barrels of crude oil and 315 billion cubic feet of natural gas.

The normal decline in oil reserves due to the year's production of 15.7 million barrels and increased royalties in Canada has been more than offset as a result of our continuing drilling development program. The natural gas reserve decline in 1974 was equivalent to the effect of royalty increases and the amount of our year's production.

Royalties on "old" natural gas increased from 22 per cent to 35 per cent in 1974 in Alberta where most of Husky's Canadian reserves are located. Advancing disproportionately in relation to increasing prices, the royalties are applied at increasing rates as the natural gas prices rise. Royalties on crude oil were also raised in Canada as wellhead prices increased during the year.

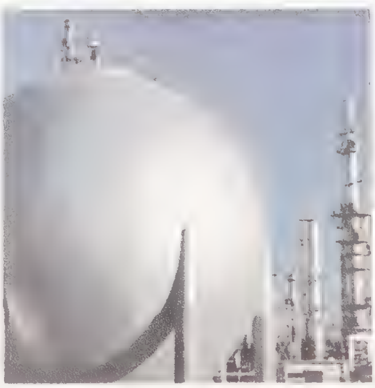
Net Oil and Natural Gas Production

	Oil and Gas Liquids Thousands of Barrels		Natural Gas Millions of Cubic Feet	
	1974	1973	1974	1973
Canada				
Alberta	**2,764**	3,173	**14,163**	15,655
Lloydminster	**7,258**	7,575	**1,603**	1,557
Saskatchewan	**926**	1,038	**688**	1,467
Total Canada	**10,948**	11,786	**16,454**	18,679
United States				
Colorado	**537**	510	**43**	39
Montana	**204**	187		
New Mexico	**620**	455	**3,837**	4,207
Texas	**328**	400	**1,260**	1,372
Wyoming	**2,383**	2,411	**1,876**	2,409
Other areas	**680**	305	**422**	256
Total U.S.A.	**4,752**	4,268	**7,438**	8,283
Total	**15,700**	16,054	**23,892**	26,962

Proven Reserves	*as at December 31, 1974*
Crude Oil (barrels)	115,422,425
Natural Gas (thousands of cubic feet)	270,416,698

Probable Reserves	*as at December 31, 1974*
Crude Oil (barrels)	29,306,838
Natural Gas (thousands of cubic feet)	44,360,596

Combined Proven and Probable Reserves	*as at December 31, 1974*
Crude Oil (barrels)	144,729,263
Natural Gas (thousands of cubic feet)	314,777,294

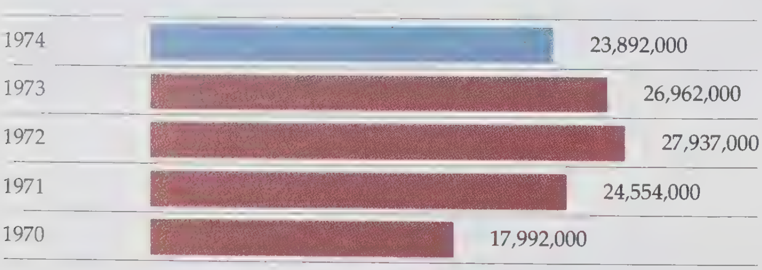


Generally, the increase in the price of crude oil in Canada amounted to about $2.50 per barrel in 1974. In Alberta a considerable portion of this increase was passed through to the producer. In Saskatchewan all of the price increase on old oil except 25 cents per barrel on heavy crude went to the Saskatchewan government, while 60 percent of the new oil price increase was allowed to flow through to the Saskatchewan producer for a period of four years. This period has now been amended to six years. Other recent changes have substantially increased the return to the producer particularly on old oil.

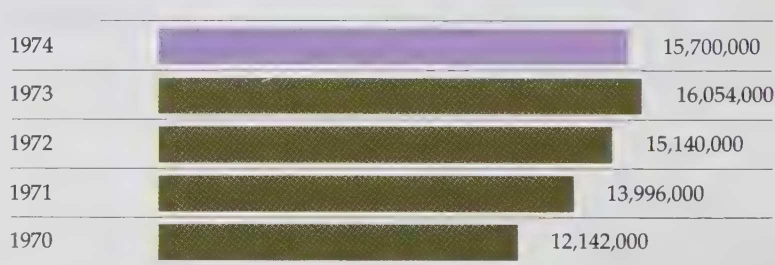
In the United States the price of old oil remained frozen, but new, released, and stripper production increased in price during the year to a range of ten to twelve dollars per barrel, depending upon the grade and quality of the oil.

Natural gas prices in Alberta generally rose to approximately 60 cents per thousand cubic feet effective November 1, 1974. These prices will be redetermined annually and are expected to gradually approach a commodity value comparable, on a heating basis, to other fuels. A pricing rule-of-thumb, in comparing natural gas to oil on a B.T.U. basis, places the price

Net Production Natural Gas *Thousands of cubic feet*



Net Production Crude Oil and Gas Liquids *Barrels*



of 1,000 cubic feet of gas approximately equal to one-sixth of the price of a barrel of oil. General agreement has been expressed between the provincial and federal governments on consideration of a series of price increases over the next several years until natural gas reaches its commodity value.

The governments are also considering a possible increase in the price of crude oil in Canada.

Summary of Wells Drilled in 1974

	Gross Wells			
	Oil	Gas	Dry	Total
Exploratory Drilling	9	8	40	57
Development Drilling	115	1	8	124
	124	9	48	181

	Net Wells			
	Oil	Gas	Dry	Total
Exploratory Drilling	6	4	32	42
Development Drilling	79	1	7	87
	85	5	39	129

California Operations

In continuing an expansion policy into potential heavy oil areas of North America, an exploration and production division office was established at Santa Maria, California, during 1974.

Earlier acquisitions in the Santa Maria Basin and a farmout in the Paris Valley oilfield had followed a leasing program in the general area. In 1974 the company acquired a significant mineral ownership position in the Vaca Tar Sand, a large reservoir near Oxnard, California, known to contain a substantial accumulation of heavy oil. Additional interests were also acquired during the year in the Santa Maria Basin.

Also in 1974, following negotiations begun a year earlier, Husky was appointed by a United States district court as operator of the Home-Stake Production Company's properties located near Santa Maria.

The Home-Stake properties, which contain substantial quantities of heavy oil in place, are currently producing approximately 1,100 barrels of heavy oil per day. The court-approved agreement provides the opportunity for Husky to earn up to a half interest in the properties.

Late in 1974 Husky negotiated a cost-sharing agreement with the United States Bureau of Mines for a field research project in the Salinas Basin near the town of San Ardo. The program is designed to demonstrate, through a pilot project, the economics and effectiveness of the combination of steam injection and fireflooding in very heavy oil reservoirs. Essentially, the fireflooding process involves a controlled ignition and burning of a portion of the oil below the surface. This program is similar, in many ways, to two Husky projects now in operation in Lloydminster.

Exploration activity in California during 1974 included the drilling of three wells which were abandoned. A development drilling program resulted in one oil well in East Cat Canyon, near Santa Maria, and one suspended oil well in Paris Valley.





Refining and Marketing

Husky's refinery throughput for 1974 increased to 59,100 barrels per day from 50,800 barrels per day the previous year.

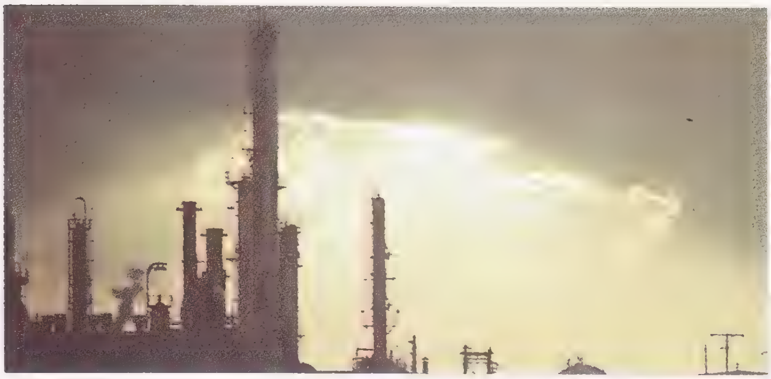
In the United States Husky's refineries are located at Cody and Cheyenne in Wyoming and at North Salt Lake in Utah. The company has one refinery in Canada at Lloydminster, Alberta.

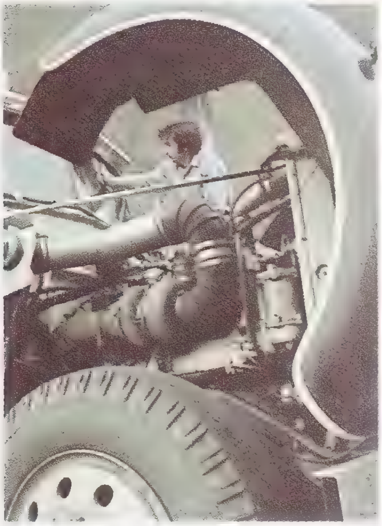
Upgrading and modernization programs, instituted during the past three years at the United States refineries, were completed and throughput capacity increased at both the Cheyenne and Salt Lake plants in 1974.

The Cheyenne refinery capacity was increased 5,000 barrels per day at the beginning of 1974 to a total of over 24,000 barrels per day. At North Salt Lake, where remodelling and construction activity was completed in the first half of 1974, capacity was also increased to approximately 25,000 barrels per day. The major product of the Salt Lake refinery is a low sulphur, high quality fuel oil.

With the completion of the modernization program at the Cody refinery in the first half of 1974, the three United States plants had achieved the capability to produce low-lead, no-lead gasoline in addition to the previous range of other refined products. Improvement of environmental protection measures and equipment was also an important part of the refinery upgrading program. These modernization and upgrading programs have entailed total expenditures in excess of $20 million over the past three years.

All of Husky's refineries operated at high capacity levels for most of 1974 during a period of high product demand. At the end of the third quarter, however, demand decreased as the economy turned down and energy conservation programs took effect. At the year-end refined product inventories were above average levels and light oil markets were in a period of surplus supply. Husky feels the oversupply condition is temporary and that inventories will adjust and price levels improve.





Late in the year Husky exercised an option to purchase a used refining facility and equipment located in East St. Louis, Illinois. The company is presently continuing plans and negotiations for relocation and modernization of the 50,000 barrel a day plant at a yet to be finalized location in western Canada.

In 1974 refined product sales averaged 64,000 barrels a day, an increase of 5,300 barrels a day over 1973. Light oil sales were 11 percent higher than the previous year while heavy oil sales showed an increase of 6 percent over 1973.

The main thrust of marketing activity in recent years has been a program of expansion of high gallonage, unique Husky designed Car/truckstops and a continued phasing out of the smaller, unprofitable urban service stations.

Refined Product Sales	*Barrels*
1974	23,345,000
1973	21,412,000
1972	20,196,000
1971	19,449,000
1970	20,791,000

Husky's system of high gallonage Car/truckstops follows the Trans-Canada highway from the west coast to eastern Ontario in Canada. In the United States Car/truckstops are located along interstate highways in the Rocky Mountain and midwest states. Previously called travel centers, the large units, located on commercial trucking routes, are open 24 hours a day and offer diesel fuel and gasoline as well as restaurant facilities for both the motoring family and the commercial trucker.

These Car/truckstops have large parking and turning areas, showers, and sleeping quarters for convenient stopoffs for the short and long distance truckers. In addition, the current design offers complete facilities for the family motorist including accessories and repair and maintenance service. Sanitary off-loading for recreation vehicles and house trailers is available together with propane and water re-supply.

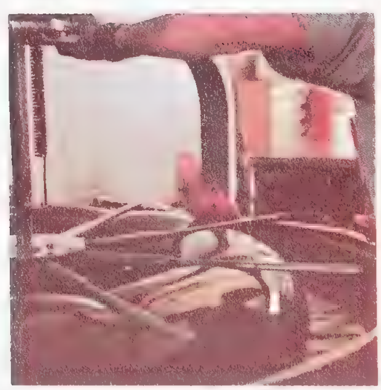
Refinery Runs

	Thousands of Barrels	
	1974	1973
Refinery		
Cheyenne, Wyoming	**8,937**	7,652
Cody, Wyoming	**4,068**	4,231
Salt Lake City, Utah	**4,936**	3,706
Lloydminster, Alberta	**3,637**	2,963
	21,578	18,552

Modern full-facility service stations in addition to self-serve retail outlets located in urban areas and farm bulk plants complement the Car/truckstop program to complete Husky's marketing balance.

In the United States Husky has complied with federal regulations regarding the marketing of no-lead gasoline. Most United States stations and all Car/truckstops in both countries are equipped to provide no-lead gasoline.


HUSKY



Areas of Activity / North America

Areas of Active Oil and Gas Exploration

Marketing Area

Refineries

Gate City Steel

Husky Industries

Net Exploratory Acreage Holdings and Rights on December 31, 1974

Oil and Gas Properties Thousands of Net Acres

Canada

Alberta (1)	848
Arctic Islands	131
British Columbia	101
Newfoundland	607
N.W.T. and Yukon	770
Nova Scotia	532
Ontario	70
Saskatchewan	887
Total Canada	3,946

(1) Includes a 50,000 acre Athabasca Area tar sand lease

(2) 231,000 net acres are subject to issuance of leases

United States

Alaska (2)	231
Rocky Mountain Area	860
Southwestern States	50
Other areas	22
Total U.S.A.	1,163

Foreign

North Sea	146
Sicily	48
Philippines	808
Total Foreign	1,002

Mining Claims and Permits Thousands of Net Acres

Canada

British Columbia	1
N.W.T. and Yukon	5
Saskatchewan	24
Total Canada	30

Areas are not shown to scale

Subsidiaries / Gate City Steel

Gate City Steel, a wholly-owned subsidiary of Husky, is engaged in warehousing, distribution and processing of steel in the United States from twelve plants in the midwest and Rocky Mountain regions.

In a period of high demand for its products and services, Gate City Steel's sales and earnings reached record levels in 1974 for the third consecutive year. Sales for 1974 were $79.3 million, compared to $46.2 million in 1973, and earnings before taxes increased to $7.6 million from $5.0 million the previous year.

Gate City Steel's accelerated growth in 1974 is attributable to positive management programs, continued investment in existing and expanded facilities, and to the strong operating performance during 1974 of a plant acquired in the latter half of 1973.

A new plant established in Gary, Indiana, during the year, has the capability of leveling steel coils up to six feet in width, one-half inch in thickness, and weighing as much as 40 tons. This new facility also functions as a central warehouse for the other

plants and allows the economies of combined purchasing from the mills.

The very high demand for steel and steel products, which has characterized the industry in recent years, declined in the fourth quarter. As a result, Gate City Steel's inventories, depleted during the steel shortage of 1973 and early 1974, are now rebuilding.


REAL-HICKORY
SMOKEY BEAR
CHARCOAL
Grill Time
FLAVOR
Charcoal Briquets
Star Grill
BLENDED HARDWOOD
Charcoal Briquets
KING HICKORY
PREMIUM
Charcoal Briquets
NET WT. 10 LBS.
Sparky
Charcoal Briquets
HUSKY REAL-HICKORY
SMOKEY BEAR
Instant Lighting!
CHARCOAL brix
ENOUGH CHARCOAL FOR FOUR STEAKS
JUST LIGHT WITH A MATCH
COOK IN 10-12 MIN
INSTANT LIGHTING CHARCOAL BRIX
Sparky
CHARCOAL LIGHTER

Husky Industries manufactures barbeque briquets at eight plants located mainly in the midwestern and eastern part of the United States. The company also produces industrial carbon, widely used in municipal water purification.

Improved results for this wholly-owned subsidiary's operations reflect the implementation in 1974 of new marketing programs and other administrative procedures. Increases in product margins, which occurred during the year, also contributed to the company's marked profitability increase in 1974.

Although Husky Industries, and most other manufacturers, will be affected by the North American fuel availability problem in 1975, the company expects to take steps during the coming year to continue 1974 gains and profitability.

Financial Review

Sales and operating revenues and net earnings set new records for Husky in 1974 for the fourth consecutive year. Net earnings increased to $33.7 million from a restated $17.0 million in 1973, after providing for current and deferred income taxes which increased substantially to $18.9 million from a restated $9.6 million in 1973. In 1974, the company adopted the last-in, first-out (LIFO) method of determining cost for substantially all inventories. The change had the effect of reducing net earnings for the year ended December 31, 1974 by approximately $12.4 million. The change had no effect on prior years. Earnings per share were $3.41, an increase of 99 per cent from the restated $1.71 earned in 1973 and represent a new high for the company.

All operating areas of the company reported improvement over last year. Approximately two-thirds of the earnings increase came from our United States operations related primarily to crude price increases. Increased crude prices in Canada were largely offset by higher taxes, royalties and surcharges imposed by provincial and federal governments during the year.

In 1974, the companies retroactively adopted the full tax allocation basis of accounting as explained in notes 1 and 5 of the notes to consolidated financial statements. This change had no material effect on net earnings for 1974 while net earnings for 1973 were reduced by $4.4 million.

A Canadian tax bill was introduced in November, most of the effects of which were retroactive to May 6, 1974. The provisions relating to oil and natural gas provided that most payments to governments, including royalties are not deductible for federal tax purposes. These provisions also reduced the rate of write off on expenditures for development, including lease acquisition costs and reduced percentage depletion. Tax rates on oil and gas income were reduced, partially offsetting the effect of the other measures. The provisions had the effect of increasing our taxes $3.5 million for the period subsequent to May 6.

Capital Expenditures

	Thousands of Dollars	
	1974	1973
Exploration	**$16,989**	10,679
Producing properties and pipeline facilities	**21,081**	18,037
Refining and marketing	**20,376**	12,515
Steel and other facilities	**3,435**	5,505
	$61,881	46,736

Capital expenditures for 1974 of $61.9 million were $15.1 million greater than in 1973. Exploration and development expenditures in 1974 together totaled $38.1 million. Of this amount $7.8 million related to continuing activities, and $30.3 million was applied to other areas, including $1.0 million outside of North America.

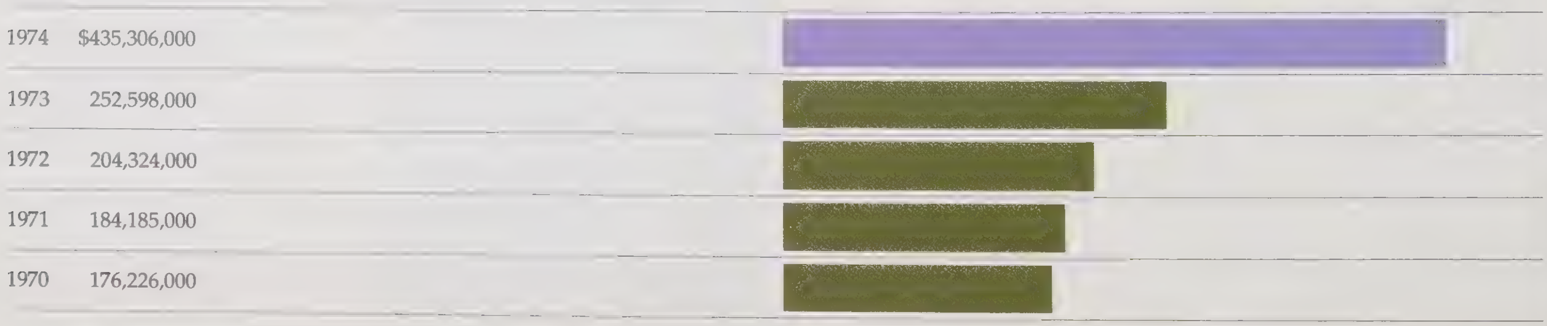
The capital expenditures in 1974 were financed out of cash flow leaving long term debt relatively unchanged.

The ratio of net earnings from operations, expressed as a per cent return on average total assets invested during each of the last 5 years, has now improved from a low point of 2.4 per cent in 1970 to 9.4 per cent in 1974. While this rate of return has grown, it cannot yet be considered adequate and should be improved in the future.

The following table sets forth for the lines of business and classes of similar products or services, the approximate amounts of (i) total sales and revenues and (ii) earnings before income taxes and extraordinary items during the last five fiscal years:

Lines of Business (in millions)	1974		1973		1972		1971		1970	
	Sales	Earnings	Sales	Earnings	Sales	Earnings	Sales	Earnings	Sales	Earnings
Petroleum production, refining and marketing										
Canada	**$101.2**	**31.1**	69.0	19.5	54.5	9.5	50.8	5.5	43.0	3.8
United States	**234.3**	**13.5**	122.7	4.2	102.1	1.5	97.2	3.9	94.6	1.9
Steel warehousing, processing and other	**79.3**	**7.4**	46.2	4.9	31.9	1.9	27.7	1.4	33.1	1.6
Briquetting	**20.5**	**0.6**	14.7	(2.0)	15.8	0.5	8.5	0.2	5.5	(0.2)
	$435.3	**52.6**	252.6	26.6	204.3	13.4	184.2	11.0	176.2	7.1
Income taxes and extraordinary items		**18.9**		9.6		2.0		2.2		2.3
Net earnings		**$33.7**		17.0		11.4		8.8		4.8

Gross Operating Revenues



Market and Dividend Information on Voting Securities

Common Stock

		1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
Price per share					
1974	High	$23-3/4	22-1/2	17-1/2	16-1/8
	Low	19-3/8	14-3/4	13-3/8	11
1973	High	$23	23-1/2	26-1/4	30
	Low	18-5/8	18-3/8	21-5/8	18-5/8

	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
Dividend per share				
1974	$ —	0.15	—	0.25
1973	—	0.075	—	0.075

6% Cumulative, Redeemable Preferred Shares, Series A ($50 par value)

		1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
Price per share					
1974	High	$41-1/2	35	31-1/2	30
	Low	41-1/4	35	31-1/2	29
1973	High	$43-3/4	43	41-1/2	42
	Low	43-1/2	41	40-1/2	41-1/2

6% Cumulative, Redeemable Preferred Shares, Series B ($50 par value)

		1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
Price per share					
1974	High	$41-1/4	34	32-1/2	31-1/2
	Low	39-5/8	33-1/2	32	29-1/2
1973	High	$43-3/4	43-1/4	42	42-3/4
	Low	43	41-1/2	41-5/8	38-3/4

The common shares are listed on the Toronto, American, Montreal and Amsterdam Stock Exchanges. The Toronto Exchange accounts for the principal volume of Husky common shares traded and the prices listed above are those reported by that exchange. The cumulative, redeemable preferred shares are listed only on the Toronto Stock exchange; dividends are designated by each series and are paid quarterly.

Source of Funds — 1974

80.9%	Operations
13.0%	Long term debt
0.6%	Issue of shares
4.0%	Sale of assets
1.5%	Other
100.0%	Total

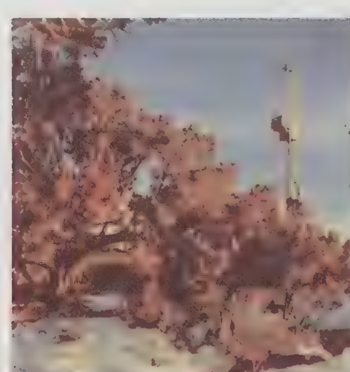
Use of Funds — 1974

77.8%	Property, plant and equipment
13.7%	Reduction of long term debt
0.4%	Retirement of preferred shares
5.6%	Dividends
2.5%	Other
100.0%	Total

Consolidated Statements of Earnings

	Year ended December 31, 1974	1973 (Restated)
Sales and operating revenues	**$435,306,000**	252,598,000
Costs and expenses		
Cost of sales and operating expenses	**321,694,000**	173,215,000
Selling, general and administrative expenses	**25,871,000**	20,606,000
Interest (net of interest income of $878,000 in 1974 and $592,000 in 1973)	**8,561,000**	8,249,000
Miscellaneous — net	**(476,000)**	1,500,000
Depreciation and amortization (note 1)	**13,791,000**	11,830,000
Depletion (notes 1 and 3)	**13,294,000**	10,624,000
	382,735,000	226,024,000
Earnings before income taxes	**52,571,000**	26,574,000
Income taxes (note 5)		
Current	**17,592,000**	1,914,000
Deferred	**1,300,000**	7,690,000
	18,892,000	9,604,000
Net earnings	**$ 33,679,000**	16,970,000
Earnings per common share (note 7)		
Basic	**$3.41**	1.71
Fully diluted	**$3.08**	1.57

See accompanying notes to consolidated financial statements



Consolidated Statements of Other Paid-in Capital and Retained Earnings

	Year ended December 31,			
	Other Paid-in Capital		Retained Earnings	
	1974	1973	1974	1973 (Restated)
Balance at beginning of year	**$72,815,000**	70,544,000	**71,657,000**	52,683,000
Adjustments				
Retroactive adjustment to provide for deferred income taxes for timing differences (note 5)			**(21,440,000)**	(17,050,000)
As restated	**72,815,000**	70,544,000	**50,217,000**	35,633,000
Add				
Credit arising from excess of provision for sinking fund redemption of preferred shares over cost of shares redeemed			**130,000**	84,000
Excess of consideration received over par value of common shares issued	**435,000**	2,283,000		
Net earnings			**33,679,000**	16,970,000
	73,250,000	72,827,000	**84,026,000**	52,687,000
Deduct				
Cash dividends				
Preferred shares			**587,000**	612,000
Common shares			**3,883,000**	1,439,000
Miscellaneous		12,000		
Provision for redemption of preferred shares			**419,000**	419,000
	—	12,000	**4,889,000**	2,470,000
Balance at end of year	**$73,250,000**	72,815,000	**79,137,000**	50,217,000

See accompanying notes to consolidated financial statements

Consolidated Balance Sheets

ASSETS

	December 31, 1974	December 31, 1973 (Restated)
Current assets		
Cash	**$ 10,182,000**	6,969,000
Accounts and notes receivable	**61,939,000**	40,007,000
Inventories at lower of cost or net realizable value (notes 1 and 2)	**53,799,000**	37,857,000
Prepaid expenses	**330,000**	465,000
Total current assets	**126,250,000**	85,298,000
Notes and contracts receivable and miscellaneous assets — at cost less amounts written off	**6,953,000**	5,000,000
Unrecovered costs Santa-Barbara project (note 3)	**7,207,000**	7,207,000
Property, plant and equipment–at cost (notes 1 and 4)		
Oil and gas properties and equipment	**215,981,000**	188,297,000
Refining, manufacturing, marketing, transportation facilities and other assets	**168,912,000**	145,822,000
Accumulated depreciation and amortization	**(91,018,000)**	(80,062,000)
Accumulated depletion	**(46,648,000)**	(38,083,000)
	247,227,000	215,974,000
Unamortized debt issue costs	**3,764,000**	4,173,000
Other intangible assets — at cost less amounts written off	**2,070,000**	2,522,000
	$393,471,000	320,174,000

See accompanying notes to consolidated financial statements

Approved on behalf of the Board

James E. Nielson, Director

F. R. Matthews, Director

LIABILITIES AND SHAREHOLDERS' EQUITY

	December 31, 1974	1973 (Restated)
Current liabilities		
Notes payable to banks	$ 11,270,000	6,347,000
Accounts payable and accrued expenses	58,210,000	34,982,000
Income taxes payable (note 5)	16,542,000	1,469,000
Long term debt due within one year (note 4)	6,256,000	6,141,000
Total current liabilities	92,278,000	48,939,000
Long term debt (note 4)	102,119,000	102,844,000
Deferred income taxes (note 5)	26,190,000	24,890,000
Shareholders' equity (note 6)		
Cumulative, redeemable preferred shares, par value $50; authorized 623,550 shares, issued 191,643 shares in 1974 and 199,813 shares in 1973	9,582,000	9,991,000
Common shares, par value $1; authorized 40,000,000 shares, issued 9,710,833 shares in 1974 and 9,682,825 shares in 1973	9,711,000	9,683,000
Undistributable capital surplus arising from purchase and redemption of preferred shares	1,204,000	795,000
Other paid-in capital	73,250,000	72,415,000
Retained earnings	79,137,000	50,217,000
	172,884,000	143,501,000
Commitments (notes 10 and 11)		
	$393,471,000	320,174,000

Auditors' Report to the Shareholders

We have examined the consolidated balance sheets of Husky Oil Ltd. and subsidiaries as of December 31, 1974 and 1973 and the related consolidated statements of earnings, other paid-in capital and retained earnings and changes in financial position for the years then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, subject to any adjustment which may result from the ultimate outcome of the litigation concerning the Santa Barbara project pending since 1969, as described in note 3, these consolidated financial statements present fairly the financial position of the company and subsidiaries as of December 31, 1974 and 1973 and the results of their operations and the changes in their financial position for the years then ended, in accordance with generally accepted accounting principles, which, except for the changes in accounting policies, with which we concur, have been applied on a consistent basis, as restated (notes 1 and 2).

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

Calgary, Alberta.
February 21, 1975

Consolidated Statements of Changes in Financial Position

	Year ended December 31, 1974	1973 (Restated)
Funds provided		
Net earnings	**$33,679,000**	16,970,000
Add amounts which were non-fund transactions	**28,689,000**	32,185,000
Working capital provided by operations	**62,368,000**	49,155,000
Issue of common shares	**463,000**	2,419,000
Sale of assets	**3,104,000**	4,096,000
Issue of long term debt	**10,012,000**	11,387,000
Other	**1,187,000**	(727,000)
	77,134,000	66,330,000
Funds used		
Additions to property, plant and equipment	**61,881,000**	46,736,000
Reduction in long term debt	**10,928,000**	10,424,000
Retirement of preferred shares	**289,000**	336,000
Dividends		
Common shares	**3,883,000**	1,439,000
Preferred shares	**587,000**	612,000
Increase (decrease) in notes receivable and miscellaneous assets	**1,953,000**	(344,000)
	79,521,000	59,203,000
Increase (decrease) in working capital	**$ (2,387,000)**	7,127,000
Changes in components of working capital		
Increase (decrease) in current assets		
Cash	**$ 3,213,000**	2,518,000
Receivables	**21,932,000**	8,430,000
Inventories	**15,942,000**	8,322,000
Prepaid expenses	**(135,000)**	(14,000)
	40,952,000	19,256,000
Increase (decrease) in current liabilities		
Notes payable	**4,923,000**	4,067,000
Accounts payable and accrued expenses	**23,228,000**	8,553,000
Income taxes payable	**15,073,000**	498,000
Long term debt due within one year	**115,000**	(989,000)
	43,339,000	12,129,000
Increase (decrease) in working capital	**$ (2,387,000)**	7,127,000

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements

December 31, 1974 and 1973

1. Accounting Policies

The consolidated financial statements include the accounts of all subsidiary companies, each of which is wholly-owned. United States subsidiaries are included at $1.00 U.S. = $1.00 Cdn. During 1973, 112,542 common shares were issued in exchange for all the outstanding shares of Keeter Charcoal Company. This transaction has been treated as a pooling of interests. The operations of Keeter Charcoal Company for 1973, prior to consummation of the transaction, were not material.

The companies employ the "full-cost" method of accounting and capitalize all North American exploration and reserve development costs. These costs are depleted on composite unit-of-production methods based upon proved developed reserves.

The cost of acquiring oil and gas interests outside of North America, and all mining interests, have been capitalized pending the outcome of exploration in each area of interest. Commencing January 1, 1973 these costs are being amortized at an annual rate of 20% pending reserve development. Unamortized costs will be depleted by the method set forth above if sufficient reserves are developed. The unamortized costs of an abandoned area are charged against earnings at the time of abandonment. Unamortized costs at December 31, 1974 and 1973 amounted to $2,191,000 and $2,532,000 respectively.

Depreciation on certain producing lease equipment is provided by the unit-of-production method. Depreciation of substantially all other depreciable assets is provided by the straight-line method at rates based upon their estimated useful lives as follows:

Classification	Rate
Refining and marketing facilities including buildings and refinery equipment	2.5 - 20%
Transportation facilities and equipment	5 - 50%
Lease equipment (excluding equipment depreciated by unit-of-production method)	7.14 - 10%
Other depreciable assets	Various

Substantially all inventories are valued at cost on a last-in, first-out basis. (See note 2). Other inventories are stated at average cost.

In 1974, the companies retroactively adopted the tax allocation basis of accounting for timing differences between net earnings and taxable income, relative to lease acquisition, drilling and exploration costs except for those differences related to these costs of United States subsidiaries. (See note 5)

2. Inventories

In 1974, the companies adopted the last-in, first-out (LIFO) method of determining cost for substantially all inventories. Prior to 1974, the cost of inventories was determined on the first-in, first-out (FIFO) method. The LIFO method was adopted to achieve a better matching of current costs and current revenues. The change had the effect of reducing net earnings for the year ended December 31, 1974 by $12,405,000 ($1.28 per share). The change had no effect on prior years since the inventory at December 31, 1973 is also the amount of the beginning inventory under the LIFO method. Had the FIFO method been used in the current year, the inventory would have been approximately $21,123,000 higher.

3. Unrecovered Costs, Santa Barbara Project

Unrecovered costs of the Santa Barbara project represent the unamortized cost of oil and gas leases off the coast of California acquired in 1968 which expired in 1973. In February, 1969, the Secretary of the Interior of the United States of America amended the regulations relating to drilling for oil and gas on the outer continental shelf and imposed an unlimited liability regardless of fault for damage caused by oil escaping. The Secretary also suspended drilling on these leases. These actions made it economically and practically impossible to continue further exploration. As a result, exploratory operations on the leases were discontinued and several companies including Husky Oil Company of Delaware filed suit against the United States of America requesting repayment of acquisition and exploratory costs incurred or compensation for the value of the leases. The trial was completed in 1972 and a decision is still pending. In the opinion of counsel for the companies, it is impossible to predict the outcome of this litigation at this time. In the year the suit is settled or dismissed it is contemplated that any costs which are not recovered by the suit will be added to depletable costs. Had total costs been taken into depletable costs, the provision for depletion would have been increased by $976,000 in 1974 and $883,000 in 1973, with a corresponding decrease in reported earnings per share of $0.10 and $0.09 respectively.

4. Long Term Debt

Long term debt at December 31 consisted of:

	1974	1973
	(in thousands)	
Husky Oil Ltd. and Canadian Subsidiaries (stated in Cdn. $)		
Secured		
Sinking fund debentures		
6% Series A, due in 1984	$ 12,111	12,659
6-3/4% Series B, due in 1987	16,970	17,550
8-1/2% Series C, due in 1991	14,236	14,325
Notes payable		
9-1/4% — $58,000 due monthly, balance due in 1978	—	3,501
Other	48	53
Unsecured — miscellaneous	636	771
	44,001	48,859
Husky Oil Company of Delaware and United States Subsidiaries (stated in U.S. $)		
Secured		
6-3/4% bonds, due in 1978	1,815	2,265
Notes payable		
5/8% over prime — $417,000 ($208,000 in 1973) due quarterly, balances due December 31, 1979 to 1980	19,166	10,000
6% — $313,000 due quarterly, balance due December 31, 1975	1,250	2,500
Other	3,404	4,423
Long term lease obligations	1,462	1,644
Unsecured		
6-1/4% convertible subordinated debentures due in 1997 with sinking fund payments from 1983 to 1996	23,485	24,203
Notes payable		
7% — due annually from 1975 to 1989	7,092	7,092
3/4% over prime — $100,000 ($220,000 in 1973) due quarterly, balances due September 30, 1975 to 1977	1,808	2,706
8-1/2% — effective rate, $65,000 including interest due quarterly to 1981, $78,000 including interest due quarterly thereafter, balances due October 1, 1984 to 1991	2,547	2,640
7% — $397,000 including interest due annually, balance due January 4, 1977	1,043	1,346
Other	1,302	1,307
	64,374	60,126
Total long term debt	108,375	108,985
Less amount due within one year	6,256	6,141
	$102,119	102,844

Interest on long term debt was $7,753,000 and $7,968,000 in 1974 and 1973 respectively. Assets of subsidiaries with an aggregate cost of approximately $86,881,000 and $88,717,000 on December 31, 1974 and 1973 respectively are specifically pledged as collateral. Additionally, the common shares of Husky Oil Operations Ltd. and Husky Oil Company of Delaware, wholly owned subsidiaries, have been pledged by the Company.

Aggregate annual maturities of long term debt for the five years subsequent to December 31, 1974 are: 1975 — $6,256,000; 1976 — $5,319,000; 1977 — $7,046,000; 1978 — $5,301,000; 1979 — $9,975,000.

5. Income Tax Expense

During the year, in accordance with a ruling of the Canadian Provincial Securities Administrators, the companies retroactively adopted the tax allocation method of accounting for income taxes as set out in note 1. The 1973 financial statements have been restated to reflect the change which resulted in a decrease in net earnings previously reported of $4,400,000 ($0.46 per share). This change had no material effect on the net earnings for 1974.

On November 18, 1974 the Canadian Government introduced budgetary proposals to amend the Income Tax Act, certain of which will be retroactive to May 6, 1974. Some of the Provinces have announced their intention to provide rebates which will have the effect of offsetting the increased income taxes resulting from the Federal amendments. The 1974 income taxes have been estimated on the basis of these proposals. As a result, the provision for income taxes is greater by approximately $3,510,000 ($0.36 per share) than the amount which would have been provided based on existing legislation.

At December 31, 1974, the Company had accumulated earned depletion deductions of $7,800,000 to be carried forward and applied against future taxable income in Canada.

The income taxes charged to earnings for the years ended December 31, 1974 and 1973 are made up of the following components:

	Canada Federal and Provincial	U.S. Federal and State	Total
	(in thousands) 1974		
Current taxes	$14,906	2,686	17,592
Deferred taxes	1,300	—	1,300
	$16,206	2,686	18,892
	1973		
Current taxes	$ 900	1,014	1,914
Deferred taxes	7,690	—	7,690
	$ 8,590	1,014	9,604

United States income tax expense has been reduced by investment tax credits in the amount of $1,884,000 in 1974 and $469,000 in 1973. Investment tax credits available to reduce future United States income taxes amount to approximately $1,000,000.

Total income taxes amounted to $18,892,000 in 1974 and $9,604,000 (restated) in 1973, an effective rate of approximately 36% in each year. These totals are less than the amount of $26,286,000 in 1974 and $13,287,000 in 1973 computed by applying the combined expected Canadian Federal and Provincial tax rates of approximately 50% to earnings before income taxes. The reasons for these differences are as follows:

	1974		1973	
	$ Amount (in thousands)	% of Pretax Income	$ Amount (in thousands)	% of Pretax Income
			(Restated)	
Computed "expected" tax expense	$26,286	50	13,287	50
Additions to income taxes resulting from royalties, lease rentals and mineral taxes payable to the Crown, net of Provincial rebates	5,182	10	—	—
	31,468	60	13,287	50
Reductions in income taxes resulting from				
Tax rate reduction on post May 6, 1974 Canadian production income	1,184	2	—	—
Tax depletion on Canadian production income	4,252	8	611	2
United States income subject to United States income tax but not subject to Canadian income tax	7,758	15	2,524	10
Miscellaneous items	(618)	(1)	548	2
	$18,892	36	9,604	36

6. Capital Shares

The Series A and B preferred shares require annual sinking funds to redeem 2,100 Series A shares at $53.50 per share and 5,850 Series B shares at $52.50 per share.

At December 31, preferred shares were issued and outstanding as follows:

	1974	1973
Series A - 6%	50,143	52,463
Series B - 6%	141,500	147,350
	191,643	199,813

Common shares were issued during the years ended December 31, 1974 and 1973 as follows:

Number Common Shares	Consideration	Credited to Share Capital	Credited to Other Paid-in Capital
		(in thousands)	
	1974		
17,108	Cash (issued on exercise of stock options and stock purchase warrants)	$ 17	228
10,900	Conversion of convertible debentures	11	207
28,008		$ 28	435
	1973		
27,539	Cash (issued on exercise of stock options and stock purchase warrants)	$ 28	394
68,000	Assets	68	1,132
39,850	Conversion of convertible debentures	40	757
112,542	Shares of Keeter Charcoal Company	(a)	(a)
247,931		$136	2,283

(a) $113,000 was credited to Share Capital: $1,815,000 to Other Paid-in Capital and $550,000 to Retained Earnings, all as of January 1, 1972.

Common shares have been reserved for issue as follows:

1974	1973	
—	273,899	Shares for Series D stock purchase warrants at exercise price of $16.50 per share expiring June 30, 1974.
299,960	299,980	Shares for Series E stock purchase warrants at exercise prices escalating from $18.00 to $21.00 per share expiring August 15, 1981.
28,300	35,250	Shares under a share option plan for officers and employees at prices ranging from $6.77 to $12.94 per share and which generally expire in the year following termination of employment.
1,174,250	1,210,150	Shares for conversion of 6-1/4% convertible subordinated debentures at $20.00 per share until 1997.
200,000	—	Shares under a stock bonus plan for key employees until December 31, 1989.
1,702,510	1,819,279	

The shareholders at the Annual Meeting on May 3, 1974 approved a stock bonus plan for key employees of the Company and its subsidiary companies. 200,000 shares of common stock were reserved for issue until December 31, 1989 not to exceed 50,000 shares in any calendar year. The Executive Compensation Committee of the Board of Directors has authorized stock bonus awards totaling 43,000 shares for 1974.

7. Earnings Per share

Basic earnings per common share are based on the weighted average number of common shares outstanding during the year. Fully diluted earnings per share are computed as if all outstanding options, warrants or conversion privileges were exercised at the beginning of the year.

8. Pension and Retirement Plans

The retirement and pension plans of the Company and its subsidiaries are contributory and are available to substantially all permanent employees. The policy is to fund accrued pension costs as determined by actuarial studies. Total pension expense was $1,537,000 and $1,167,000 for 1974 and 1973 respectively, which includes amortization of past service costs over a 10 year period. The unfunded past service liability is not material. Based on actuarial reports, the assets of the plans exceed the total actuarially computed value of vested benefits for employees. The Company has determined that for employees of U.S. subsidiaries, the revisions to be made to the retirement and pension plans in accordance with the Employees Retirement Security Act of 1974 will not materially affect the amounts of pension expense, periodic funding of pension costs, or unfunded vested benefits.

9. Officers and Directors Remuneration

The Company had 10 directors and 18 officers, 2 of whom served in both capacities during 1974 and, in 1973, had 12 directors and 17 officers, 3 of whom served in both capacities. Remuneration was as follows:

	Directors		Officers	
Paid by	1974	1973	1974	1973
	(in thousands)			
Husky Oil Ltd.	$ 44	36	—	—
Husky Oil Operations Ltd.	—	—	238	268
Husky Oil Company of Delaware	77	65	685	483
Gate City Steel Corp.	—	—	91	73
Husky Industries, Inc.	—	—	3	—
	$121	101	1,017	824

10. Lease Commitments

For purposes of the following disclosure the Company has made a distinction between "financing" lease arrangements and other lease arrangements. A "financing" lease is one which, during the noncancellable lease period, either (1) covers 75 percent or more of the economic life of the property, or (2) has terms which assure the lessor a full recovery of the fair market value of the property at the inception of the lease, plus a reasonable return on his investment.

Rental expense, reduced by related income from subleases, for other than capitalized lease obligations (note 4) and oil and gas lease rentals for the two years ended December 31, 1974 was as follows:

	Year Ended December 31,	
	1974	1973
	(in thousands)	
"Financing" leases		
Basic rent	$3,045	2,953
Other leases		
Basic rent	1,765	1,445
Contingent rentals	447	422
Sublease rentals	(1,234)	(921)
	$4,023	3,899

Contingent rentals paid to lessors of certain service stations are determined on the basis of volumes in excess of stipulated minimums.

At December 31, 1974, the Company was committed under noncancellable leases other than capitalized lease obligations (note 4) for minimum annual rentals as follows:

	Type of Property				Total	
Year ending December 31,	Service Stations	Refinery Equipment	Aircraft	Transportation, Office and Other Equipment	"Financing" Leases	Other Leases
		(in thousands)				
1975	$1,768	1,029	192	1,377	3,042	1,324
1976	1,704	1,029	192	1,305	3,038	1,192
1977	1,529	1,029	147	626	2,408	923
1978	1,326	1,029	12	542	2,244	665
1979	1,271	1,029	—	533	2,235	598
1980-1984	5,782	5,146	—	2,085	10,787	2,226
1985-1989	3,804	1,801	—	—	5,601	4
1990-1994	2,799	—	—	—	2,799	—
Thereafter	887	—	—	—	887	—

The above amounts are exclusive of taxes, insurance, maintenance and other operating expenses which are obligations of the Company and rentals from cancellable subleases.

Present values of basic rental commitments for noncapitalized "financing" leases based on interest rates implied by the terms of the leases are as follows:

	Present value of noncapitalized "financing" leases	
	1974	1973
	(in thousands)	
Service stations	$ 8,972	11,134
Refinery equipment	7,066	7,222
Aircraft	458	621
Transportation, office and other equipment	2,057	1,871
	$18,553	20,848

Interest rates used to calculate the above present values range from 14.8% to 3.5% and the weighted average annual interest rate is 9.5% in 1974 and 9.9% in 1973.

If all noncapitalized "financing" leases had been capitalized, there would have been no material effect on net earnings.

11. Commitments

A subsidiary company has entered into an agreement to purchase $23,400,000 of crude oil during the four year period expiring December 31, 1977. The Company had $18,000,000 remaining per the agreement at December 31, 1974, which served as collateral for $18,500,000 of bank borrowings of an intermediary made for the benefit of the seller. The borrowings will be repaid by the seller if it fails to deliver the minimum amount of crude oil required by the agreements; such repayment by the seller being guaranteed by a major United States bank.

Management's Discussion and Analysis of the Financial and Operating Summary

The discussion below further explains the significant variances found in the financial and operating summary for 1974 and 1973 compared with the previous year. Management cautions against projections from historical data presented because of the uncertainty of such things as government regulations, income taxes, crude costs, etc.

1974 Compared to 1973

Sales and operating revenues increased $182,708,000 (72%). This increase was caused by several factors, the predominant being the significant increase in crude oil prices. The production of crude oil and natural gas was down slightly in volume, but the sale of refined products increased by about 9%. Revenue from steel and charcoal operations also increased substantially, as a result of both volume and price increases.

Costs and operating, selling and general expenses increased $153,744,000 (79%), which reflects higher volumes and prices for crude oil and refined product purchases. The increase includes a charge of $21,123,000 relating to the adoption of the last-in, first-out (LIFO) method for valuing inventories (see notes 1 and 2 to the consolidated financial statements). Additionally, higher payroll costs and related benefits along with general price increases in other areas contributed to the increase.

Miscellaneous — net decreased by $1,976,000 (132%), which can be attributed to unusual charges in 1973 for disposal and write off of assets, write off of abandoned foreign exploration costs and for loss on the liquidation of a joint venture. Gain on the redemption of debentures also increased in 1974.

Depreciation, depletion and amortization increased $4,631,000 (21%). Depreciation increased about 16% which corresponded closely to the increase in investment in depreciable assets.

Depletion increased approximately 25%. Even though production was down slightly, the unit-of-production depletion rate increased substantially, which reflects the high cost of finding new reserves.

Income taxes increased $9,288,000 (97%), which reflects both the increased earnings of the company and the introduction of budget proposals by the Canadian Federal and Provincial Governments, certain of which are retroactive to May 6, 1974.

The implementation of full tax allocation basis of accounting and the utilization of previously accumulative exploration and development expenditures in 1973 resulted in substantially greater deferred income taxes in 1973 than in 1974.

Since consolidated earnings from United States sources, with a lower effective tax rate, increased proportionately more, the adverse effect of increased Canadian effective tax rates was offset. The resulting consolidated effective tax rate remained at approximately 36%.

1973 Compared to 1972

Sales and operating revenues increased $48,274,000 (24%). This was due primarily to increased production and sales of refined products, increased crude prices in the latter part of 1973 and increased revenue from steel sales.

Costs and operating, selling and general expenses increased $32,258,000 (20%), which reflected slightly higher volumes for crude and refined product purchases and a general world-wide increase in oil prices. Higher operating expenses also contributed to the increase.

Miscellaneous — net increased by $879,000 (142%), which can be attributed to unusual charges in 1973 as described above. Additionally, there were decreases from the charges made in 1972 for foreign exchange losses and losses from mining claims abandoned.

Depreciation, depletion and amortization increased $2,733,000 (14%). This reflects an increase in production and a slight increase in the unit-of-production depletion rate. Normal increases relating to depreciable assets acquired during the year also contributed to the overall increase.

Income taxes increased $4,294,000 (105%), due primarily to increased net earnings. The effective tax rate remained relatively constant.

HUSKY OIL LTD. AND SUBSIDIARIES

Financial and Operating Summary

	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965
Financial (thousands of dollars except per share figures)										
Sales and operating revenues	**$435,306**	252,598	204,324	184,185	176,226	163,493	153,663	90,197	66,943	53,237
Equity in earnings of Empire State Oil Company	**—**	—	—	1,494	758	—	—	—	—	—
	435,306	252,598	204,324	185,679	176,984	163,493	153,663	90,197	66,943	53,237
Costs and operating, selling and general expenses	**347,565**	193,821	161,563	146,683	143,770	131,674	123,110	67,401	47,463	37,544
Interest (net of interest income)	**8,561**	8,249	8,637	9,887	9,261	8,264	6,981	4,486	3,068	2,101
Miscellaneous — net	**(476)**	1,500	621	(663)	702	(558)	(262)	(55)	(100)	320
Depreciation, depletion and amortization	**27,085**	22,454	19,721	18,239	15,490	15,493	14,758	10,148	9,319	7,318
Minority interest in earnings of subsidiaries	**—**	—	309	546	644	755	780	617	680	852
	382,735	226,024	190,851	174,692	169,867	155,628	145,367	82,597	60,430	48,135
Earnings before income taxes and extraordinary items	**52,571**	26,574	13,473	10,987	7,117	7,865	8,296	7,600	6,513	5,102
Income taxes										
Current	**17,592**	1,914	580	72	143	—	—	—	—	—
Deferred	**1,300**	7,690	4,100	2,160	456	1,760	3,369	3,163	—	—
	18,892	9,604	4,680	2,232	599	1,760	3,369	3,163	—	—
Earnings before extraordinary items	**33,679**	16,970	8,793	8,755	6,518	6,105	4,927	4,437	6,513	5,102
Extraordinary items — net	**—**	—	2,604	—	(1,711)	—	2,123	708	—	—
Net earnings	**33,679**	16,970	11,397	8,755	4,807	6,105	7,050	5,145	6,513	5,102
Dividends on preferred shares	**587**	612	644	665	694	716	740	1,616	1,331	807
Earnings for common shares	**$ 33,092**	16,358	10,753	8,090	4,113	5,389	6,310	3,529	5,182	4,295
Common shares outstanding (in thousands) (weighted average from 1968)	**9,704**	9,579	9,536	9,416	9,411	9,405	8,723	6,644	6,431	6,244
Earnings per common share										
From operations	**$ 3.41**	1.71	.86	.86	.62	.57	.48	.42	.81	.69
Extraordinary items — net	**—**	—	.27	—	(.18)	—	.24	.11	—	—
	$ 3.41	1.71	1.13	.86	.44	.57	.72	.53	.81	.69
Dividends per common share	**$ .40**	.15	.15	.15	.15	.30	.30	.30	.15	—
Preferred shares outstanding at par value	**9,582**	9,991	10,388	11,826	12,221	12,620	12,392	27,376	27,770	13,171
Working capital provided by operations	**62,368**	49,155	33,820	29,282	23,288	24,244	24,165	18,672	16,203	12,900
Capital expenditures	**61,881**	46,736	35,044	34,656	47,209	39,535	36,103	39,811	31,649	21,516
Working capital	**33,972**	36,359	29,232	15,999	16,750	15,388	22,901	15,072	18,783	12,094
Long term debt	**$102,119**	102,844	101,759	116,017	111,868	104,337	94,669	74,125	52,287	43,830
Operations										
Production — Daily Average										
Net crude oil and gas liquids — barrels	**43,015**	43,984	41,482	38,345	33,265	31,663	30,742	26,197	22,178	17,463
Natural gas — mcf	**65,460**	73,868	76,539	67,271	49,293	46,236	47,571	45,828	44,518	35,173
Refining and marketing — Daily Average Barrels										
Refinery runs	**59,116**	50,828	48,624	50,185	50,044	47,893	45,802	20,248	18,387	16,929
Refined product sales	**63,958**	58,662	55,330	53,285	56,961	52,730	48,662	21,750	19,323	18,295

Note: *The years 1967 through 1973 have been restated. See note 1 of the Notes to Consolidated Financial Statements. In 1968 the Canadian Institute of Chartered Accountants required all companies to provide for income taxes on a tax allocation basis. Accordingly, years prior to 1967 do not include a provision for deferred income taxes. The accumulated amount of such taxes at December 31, 1966 was $2,192,000.*

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President
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Salt Lake City, Utah

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